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SUBJECT: KAESONG INDUSTRIAL COMPLEX NEEDS WORKERS

Classified By: POL M/C Joseph Y. Yun. Reasons 1.4(b/d)

¶1. (C) SUMMARY: In November 2008, when North Korea threatened to "restrict and cut off" South Koreans' border access, including to the Kaesong Industrial Complex (KIC) north of Seoul, it seemed that hostile inter-Korean politics might lead to the closure of what has been the centerpiece of economic engagement since it opened in late 2003. Three months later, KIC continues to operate, with 93 South Korean enterprises employing almost 40,000 North Korean workers, a number that continues to creep upward. With the North having shown that its bark was worse than its bite, ROK officials, businesspeople and academics think KIC will survive, but point out that it now faces an economic constraint: too few workers. MOU officials told us they are looking at various options for bringing in more, including building dormitories at the KIC, helping companies build them, or improving roads to surrounding areas to allow more busing. However, Blue House and Foreign Ministry officials continue to tell us that the ROKG will not move on this issue until there is some improvement in inter-Korean relations. END SUMMARY.

Constraint on Workers

¶2. (C) Ministry of Unification (MOU) Director of the KIC Planning Office Kim Ki-woong told us on March 3 that the key issue his office is grappling with-- preparing to act quickly if inter-Korean politics permit -- was "how to get more young women to the KIC." South Korean firms and North Korean authorities both prefer a workforce largely made up of women between ages 20 and 40 for sewing and other light industrial tasks. The problem is that the 40,000 workers now at the KIC amount to one or more woman from almost every family in Kaesong City, in some cases mothers and daughters; the total number of such workers available in Kaesong City is estimated at 50,000.

¶3. (C) Already, ROK firms are complaining that they requested, say, 1,000 workers but have been assigned only ¶200. If the 38 additional plants now under construction are built, the KIC will need 60,000 North Korean workers by the end of 2009, Kim said, noting that enterprises are already complaining about being understaffed. Further expansion plans (previously projected for 2009 but now seen as more distant) foresee 100,000 workers in over 250 enterprises, meaning that labor supply will be a key issue.

¶4. (C) As additional workers have to come from outside Kaesong, the most viable option is for the ROKG to build dormitories at the KIC, a four-year project. Construction

paid for by South Korean firms would make labor costs prohibitively expensive. Shin Eon-sang, former Director of the Kaesong Industrial Management Committee that manages the complex said in late February that it would cost USD 60 million to build dormitories to house 15,000 workers. This has been on the table in inter-Korean discussions for years. The MOU's 2007 budget included about USD 18 million for dormitories, and dormitories featured in the December 2008 agreement of the first meeting of the "Joint Committee for Inter-Korean Economic Cooperation" that followed then-President Roh Moo-hyun's October 2007 summit meeting with Kim Jong-il:

"The South and North have agreed to cooperate on the supply of the North Korean workforce necessary for the first stage development of the KIC and to discuss the construction of dormitories for North Korean workers commuting to the KIC..."

President Lee Myung-bak raised eyebrows, and apparently angered the North, soon after his inauguration when he told businesspeople that the ROKG would be careful about building dormitories, mentioning that labor unrest was a concern.

15. (C) Recognizing that inter-Korean dialogue about dormitories and other issues seems unlikely now, Kim said his office was trying to find a work-around: the ROKG could build foundations and let enterprises fund and build the dormitories; enterprises could build dormitories on their own, perhaps borrowing funds from MOU. Another option would be to instead improve the roads connecting the KIC to the Kaesong-Pyongyang highway, which would take only six months,

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enabling buses (adding to the 200-plus now in operation each day) to pick up workers from Kumchon, Pyongsan and other nearby towns. However, Kim recognized that practical suggestions from the MOU were not enough; the Blue House would have to be interested in finding ways for the KIC workforce to expand. Asked if there were anything North Korea could do, short of dialogue with the South, he said that there were empty buildings in Kaesong City that could be renovated to house thousands of additional workers, but there was currently no means for discussing such a possibility with the North.

Blue House Not Moving

16. (C) Blue House officials tell us that there has been no change in the ROKG position on the KIC: that building dormitories would be prioritized only if South-North dialogue resumes. In the meantime, Blue House agreed to MOU's proposal to continue with basic infrastructure upgrades such as a new fire station by the end of March, wastewater treatment and hot water supply systems by June, and a nursery for workers' infants, justified on humanitarian grounds. Those improvements may be intended to counter what Kyungnam University's Lim Eul-chul, who wrote a 2007 book about the KIC, told us recently was a sense that ROK enterprises are now on their own at the KIC, without government backing.

Enthusiasm for KIC

17. (C) In separate meetings, MOU Director of KIC Planning Kim and former Director of the Kaesong Management Committee Shin both shared their enthusiasm for further expansion of the KIC as the best route to change the DPRK. Asked about the social impact of a growing workforce, both said that North Koreans from around the country were bribing officials and using their family backgrounds to get jobs at KIC, and that KIC was the main topic of conversation in and around Kaesong City. Kim likened the phenomenon to his father's work on a U.S. base in the 1950s and 1960s, saying the whole family would

gather at night while his father talked about the wonders of America, such as high-quality paper or chocolate. Shin said that current ROKG leaders seemed to have forgotten that the North Korean military had staunchly resisted the idea of KIC as a security risk and that Kim Jong-il had personally gone to bat for it. Along with pro-engagement academics such as Kyungnam University's Lim Eul-chul, they lamented the fact that KIC was in effect twisting in the wind while the ROKG failed to clearly support it.

Comment

18. (C) From a controversial beginning when many South Koreans had doubted its feasibility, the KIC has emerged as a viable economic concern with broad public support. Closure of the KIC would cut off a source of hard currency revenue -- about USD 36 million per year -- to the DPRK. However, much more would be lost: the chance for 40,000 (over twice the number of DPRK defectors who have reached South Korea) and perhaps more North Koreans to get hands-on experience of the South Korean business model, along with experiencing abundant electricity and hot showers; the chance for these workers' family and friends to hear about KIC; and an excellent venue for gradually increasing economic integration to ease tensions between the two Koreas. In our view, KIC is a project worth keeping and encouraging.
STEPHENS